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## **Spatial Economic Impacts of International Head Office Locations: A Case-Study of Amsterdam South**

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## SPATIAL ECONOMIC IMPACTS OF INTERNATIONAL HEAD OFFICE LOCATIONS: A CASE-STUDY OF AMSTERDAM SOUTH

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### Introduction

The demand for office locations has been growing rapidly during recent decades. This has been the consequence of several important developments in the economy, including an increasing emphasis on the service sector. In addition, decreasing transport costs and reductions in trade restrictions are giving firms a stronger international orientation (Dunning and Norman, 1987). A related development is the growth in the number of international organizations. Larger cities have tried to attract these national and international companies and organizations by offering high-quality head office locations.

This article investigates the regional economic impacts of the development of a head office location, by describing a case-study of Amsterdam South. First, we present a concise review of the literature. We then give an introduction to the plans in Amsterdam South and identify the impacts of development there. Finally we draw conclusions and offer policy recommendations.

### World cities and head office locations

In the literature on metropolitan development, the concept of 'world city' has achieved popularity during the last decade. Hall (1966) used the term; it was given more precise meaning in the work of

Friedmann (1986) and Sassen (1986). World cities are considered to play a major role in the international division of labour. They host important command and control centres such as the headquarters of multinational firms, and provide the financial and other business services these headquarters need. In addition, world cities offer a physical and social infrastructure in terms of office locations, transport systems (internal and international) and quality of labour force.

Cities such as New York, Tokyo and London have large numbers of international firms and qualify as world cities beyond any doubt. In addition, there are other metropolitan areas where it is less easy to determine the extent to which they qualify as a world city. This is especially the case with polycentric city systems as found in the Netherlands (the Randstad area), Germany (Ruhr area) and Belgium (Brussels, Antwerp, Gent).

World cities have been studied from many perspectives such as social polarization (see Sassen, 1986; Hamnett, 1994) and international migration (see Beaverstock and Smith, 1996). In this contribution we pay attention to another aspect: the issue of head office locations. World cities usually have a very expensive high-quality head office location, although there are exceptions. As Shachar (1994) indicates, the Randstad metropolitan area with a population of about 5m inhabitants and with a large number of medium-sized cities does not really have a head office location. Nevertheless, with about 100 headquarters of European firms, the Randstad is in third position after London and Paris, ahead of Frankfurt and other German cities. Within the Randstad, however, these headquarters are distributed between Amsterdam, Rotterdam, The Hague and Utrecht. Shachar suggests that a single location may not be necessary for the Randstad to fulfil the function of a world city, and he may be right. Yet, there are some recent important developments of high-quality office projects in a particular area: Amsterdam South. It is to these developments that the present article is addressed.

A head office location is defined as 'an area with a strong concentration of advanced office activities,

situated in a major metropolitan region with a highly developed urban economy and specialized and sophisticated services' (Korteweg and Lie, 1992). For the success of such a location, it is very important to have a deluxe image. Several factors are important in this respect:

- the presence of an important and well-known *image signifier*; the development of La Défense in Paris, and the new Arc de Triomphe, is an example of this
- *selectivity* with construction requests; the architecture of the building is important
- *avoidance of over-supply*; the notion of scarcity is important for a high-quality image.

### Introduction to Amsterdam South

Amsterdam aims to develop the south of the city as a prime office location (Rienstra and Nijkamp, 1998). The plans indicate a development of 15,000–30,000 m<sup>2</sup> of office space (with rentals greater than f400 per m<sup>2</sup> per year); in addition, space is reserved for incidental demand from individual companies. The plans also include a large-scale expansion of transport infrastructure to this area: the highway will be extended and roofed over, a metro will be constructed to the city centre and the present train station may be developed to become a second terminal for high-speed trains. The potential of the area seems to be very good. Schiphol Airport is very near, accessibility via highways and high-quality public transport is good, there are two important image signifiers (the World Trade Centre and the new ABN-AMRO bank head office) and a university and congress centre are already present in the area.

It is, however, questionable whether the plans of the municipality are not too ambitious. The Municipal Real Estate Company (1995) for example, gives forecasts for future demand as presented in Table 1. From these forecasts it becomes clear that demand is limited and that the plans for developing Amsterdam South would imply that nowhere else in the city should see top-segment office space constructed. It is questionable whether this is feasible (let alone desirable). At several sites new offices are already under construction. It therefore seems necessary to attract more foreign-based companies.

The international position of Amsterdam has both strong and weak points. The city is not as dominant on the national market as, for example, Paris in France. In addition, the Netherlands does not have large state-owned companies which have their offices located in the capital, and the domestic market is not as large as in competing European countries: for example, total office space in 1990 was 5,200,000 m<sup>2</sup>, which is very small compared to cities such as Paris (35,000,000 m<sup>2</sup>) and London (25,000,000 m<sup>2</sup>). An indication of this is that rents in Amsterdam are low compared to other European cities (Korteweg and Lie, 1992).

There are, however, various positive features of Amsterdam. First, it has a tradition of coordinating and controlling trade flows, due partly to the colonial past. As a result, it has recently attracted many European distribution centres. Second, there are relatively many multinational companies based in the Netherlands, and the fiscal authorities are used to dealing with such companies. Third, the international accessibility of Amsterdam is valued very highly. Fourth, the Dutch labour force is well-qualified and has a good knowledge of foreign languages.

Despite this, it is expected that Amsterdam South will compete more with other mid-large cities

**Table 1** Annual demand for newly built office space in Amsterdam (1995–2005)

	Careful scenario (m <sup>2</sup> per year)	Positive scenario (m <sup>2</sup> per year)
Total demand	90,000	130,000
Top segment (20%)	18,000	26,000
Subtop	12,000	17,250
Absolute top	6 000	8 750

Source: Municipal Real Estate Company (1995)

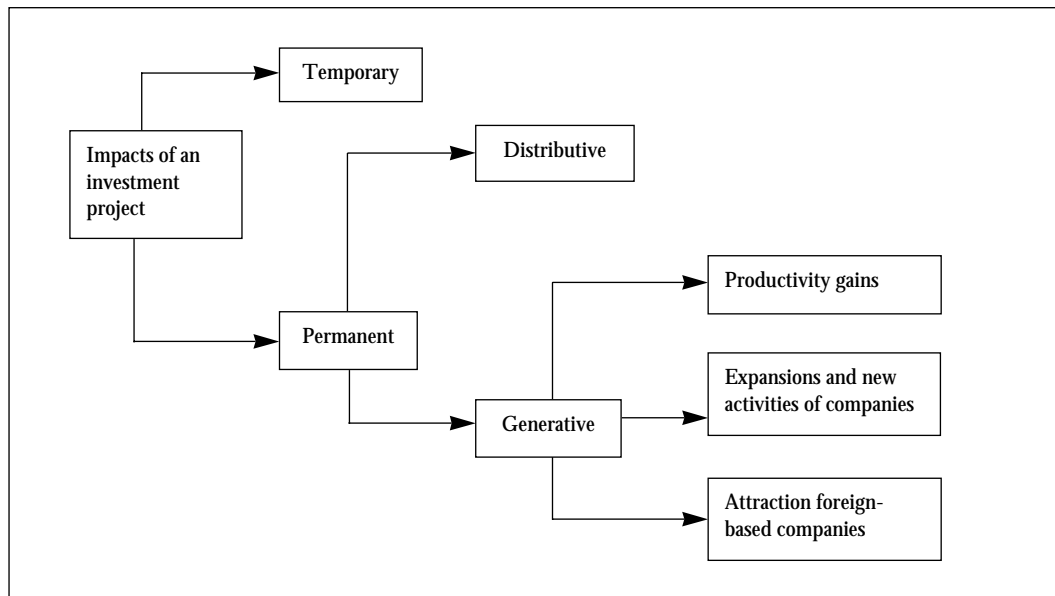


Figure 1 Typology of employment impacts of an investment project

(Brussels, Düsseldorf, Frankfurt). In this way, demand for office space may increase and become larger than is expected in the above forecasts.

- *productivity gains* may occur
- existing firms may start *new activities* or entirely new firms may be established
- companies may base *affiliates* at the new location, hence creating entirely new employment

## Regional economic impacts of the development of Amsterdam South

### *Typology of impacts*

In analysing impacts of the development of a prime office location, we use employment and movement of offices as indicators. A typology of spatial economic impacts is presented in Figure 1.

First, a distinction is made between temporary – during the construction phase – and permanent impacts (Bruinsma et al., 1996). When analysing permanent impacts, a distinction is then made between distributive and generative employment growth (Armstrong and Taylor, 1986; Rietveld and Bruinsma, 1998). Distributive impacts result in a shift of employment from other locations towards the newly developed location. Generative impacts lead to entirely new employment. Generative growth may occur for various reasons:

### *Temporary employment impacts*

The number of temporary jobs created during the construction stage mainly depends on the amount of investment. Jansen (1993) indicates that in the construction sector average sales per job are £252,000, and about the same holds for investment in transport infrastructure. The multiplier for investments in transport infrastructure as calculated by Bruinsma et al. (1996) is 1.7. If it is assumed that the same multiplier holds for office projects, then an investment of £1m will result in the creation of 6.7 jobs. Current plans indicate investment of £3–4bn in office space and £1–2bn in transport infrastructure, so that in a construction period of 10 years 26,750–40,000 temporary person–year jobs will be created (see Table 2).

**Table 2** Temporary employment impact in a 10-year period

	Minimum	Average	Maximum
Investment ( fbn):Offices	3	3.5	4
Infrastructure	1	1.5	2
Direct person years	16,000	20,000	24,000
Indirect person years	10,750	13,500	16,000
Total person years	26,750	33,500	40,000

### *Permanent generative employment impacts*

Generative impacts may occur because firms perform better here than at other locations or due to the location of foreign-based firms. It is not yet possible to analyse these impacts; this is only possible in an ex post analysis. However, some indications can be given, including the development of employment in those companies which are already located in this area. Employment growth in existing firms is higher in Amsterdam South than in Amsterdam in total. In the last 10 years annual growth was on average 1.6 percent higher; although this difference was mainly achieved in the last five years. It is also striking that Amsterdam South has seen a high proportion of investment in offices from outside the region. Furthermore, its share of new activities and expansions is higher than the urban average. Thus it can be concluded that there are clear indications that generative employment growth can be expected due to the development of Amsterdam South.

### *Distributive impacts*

The supply of both new and empty existing offices is changing rapidly. When analysing potential distribu-

tive impacts, competing locations are relevant. Amsterdam South has by far the highest share in the top segment of the market (rents above f400 per m<sup>2</sup>): 21 percent of the offices in Amsterdam South are in this segment, whereas in all other quarters this segment is virtually absent (Table 3). The dominant position of Amsterdam South in the subtop segment is also striking.

Another indication of distributive impacts are the moves companies make between distinct areas (De Boer et al., 1996). Amsterdam South mainly attracts firms from the city centre, which may partly be explained by the worsened accessibility and parking problems there.

### Conclusions

There is increasing competition between cities at the national and international level for the location of head or major offices of companies. Successful development of such a location may have positive generative impacts on employment and local economic growth. However, it may also result in shifts of activity towards this newly developed location, having negative and undesirable impacts on other parts of a region or city. It is therefore necessary to

**Table 3** Average yearly office space rented in Amsterdam (1985–94)

%	Top	Subtop	Middle	Base	Total 1000 m <sup>2</sup>
Centre	1	10	58	31	43.3
West	0	2	62	36	40.6
South	21	33	38	8	39.5
South-east	0	1	89	10	50.6
East	0	0	49	51	8.6
North	0	0	46	54	0.9
Total	5	10	63	22	183.5

*Note:* Rents per m<sup>2</sup>: top: > f400; subtop: f300–400; middle: f225–300; base < f225.

*Source:* Municipal Real Estate Office (1995).

analyse carefully the potential spatial economic impacts of such investment projects *within* urban areas.

In this article a case-study has been presented of the potential impacts of Amsterdam South. There are clear indications that generative employment growth may occur: companies already present here show employment growth which is higher than the city average, these companies start relatively many new activities, and the area attracts many new companies. If current plans are realized, these impacts may be reinforced, leading to generative economic and employment growth. A condition would be that Amsterdam South succeeds in attracting foreign-based companies.

Within Amsterdam, a shift may occur out of the centre towards Amsterdam South, because many offices have already moved outside this area. New investors may in the future also locate there instead of in the centre or other parts of Amsterdam.

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